



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

25 May 2015

Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Chair and Senators

Further to my letter of 20 May 2015, I enclose a report produced by Ernst & Young entitled 'Sticky Money'. This report is publicly available and outlines the value of the sector and ways to measure this contribution, recognising the challenges current corporate reporting structures pose in measuring value and contribution of co-operatives and mutuals.

The report also provides further case studies of co-operatives including one of Australia's most successful retail co-operatives, the Barossa Co-operative.

The Business Council of Co-operatives and Mutuals (BCCM) formal submission to your inquiry will be provided shortly.

Yours sincerely

Melina Morrison
Chief Executive Officer

Sticky Money

Recognising the
total value created by
Australian Co-operatives
and Mutuals



EY

Building a better
working world

Sticky Money

Australian co-operatives and mutuals can create substantial commercial value. They can also create broader value which is often not captured in financial disclosures, such as contributing to the wellbeing of individuals, the delivery of public services, building resilient communities, and thriving local economies.

In Australia, the commercial and broader value of co-operatives and mutuals can typically go unrecognised. This paper sets out a framework to recognise, measure and report the total value created by these organisations. The utility of EY's *Total Value Framework* is illustrated through a case study – Barossa Community Co-operative (The Co-op) – which shows how commercial value creates broader value by the dollars of revenue being recycled three or four times through the local economy and community, or as we term it in this paper, *Sticky Money*.

Emerging from the shadows

The Australian co-operative and mutual sector is emerging from the shadows following the International Year of the Co-operative in 2012, the establishment of the Business Council of Co-operatives and Mutuals (BCCM) in 2013, and in 2014 the Ministerial launch of a White Paper on *Public Service Mutuals*¹. The White Paper has received substantive recognition in the *Competition Policy Inquiry* (Harper Review), the *Interim Report of the Reference Group on Welfare Reform* (McClure Report), and the *Industry and Competitive Statement*, which focused on employee ownership. However, the prevailing corporate reporting standards, market analyses, and contemporary commentary on the economy do little to shine a light on the broader value created by co-operatives and mutuals. The challenge for each, and for the sector as a whole, is therefore how to measure and report the total value created.

A new paradigm for corporate reporting

Prevailing corporate reporting standards were designed for investor-owned businesses with an emphasis on short-term financial metrics such as profitability and shareholder value. These standards do not adequately capture the interests of the multiple stakeholders of co-operatives and mutuals. They do not recognise the primacy of the interests of members, whether they be consumers, employees, or enterprises. Neither do they recognise the commitments to the community, the environment nor the long-term sustainability of the organisation itself. These reporting standards are also of diminishing relevance more generally as demonstrated by the development of a framework for Integrated Reporting which places greater emphasis on the intangible assets of businesses such as brand value and intellectual, human, social, and natural capital.² The *Total Value Framework*, developed by EY and presented here, builds on the conceptual models of Integrated Reporting and our previous reports³ and acknowledges the multi-stakeholder context for co-operatives and mutuals.

Comparative advantage

Industry and market analyses often fail to consider the longer term value created, but also the comparative advantages of co-operative and mutuals. Comparative advantage is driven by the inherent characteristics of co-operative and mutuals such as member engagement and the re-investment of profit.⁴ To be effective in informing investment and purchasing decisions of members, market analyses must include metrics that help to measure and report the broader value and comparative advantage of co-operatives and mutuals. These metrics include: customer and member satisfaction; levels of economic and democratic participation; employee wellbeing; investment in communities and; environmental impact.

Out of the shadows

The *Total Value Framework* and the development of metrics for comparative advantage provides the basis for co-operatives and mutuals to not only contribute to the commentary on the economy and society but also inform government policy.

Sticky Money – The Co-op

The Co-op Foodland's revenue in 2013 was \$48 million. Approximately \$25 million of this commercial value is recycled through local suppliers, employees, members and the community to create human, intellectual and natural and social and relationship capital. For every dollar spent at The Co-op Foodland, an additional 76 cents of total value is created for the Nuriootpa region – we call this Sticky Money.

1 Business Councils of Co-operatives and Mutuals (2014), White Paper, Public Service Mutuals: A Third Way for Delivering Public Services in Australia. Accessed at <http://bccm.coop/policy-agenda/research/public-service-co-operatives-mutuals-white-paper/#.VFq6xK0cR1s>

2 Integrated Reporting Framework. International Council of Integrated Reporting (2013). The International Reporting Framework. Accessed at <http://www.theirc.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>

3 EY (2014) Integrated Reporting: Elevating value. Accessed at <http://www.ey.com/AU/en/Services/Specialty-Services/Climate-Change-and-Sustainability-Services/EY-lets-talk-sustainability-issue-2-elevating-value>

4 Johnston Birchall (2012) The Comparative Advantages of Member-owned Businesses, *Review of Social Economy*, 70:3, 263-294.

Inherent characteristics of co-operatives which drive value creation⁶

- Member ownership and control
- Democratic governance
- Autonomy and independence
- Re-investment of profits and surpluses
- Create social and commercial value
- Education and training
- Co-operation amongst co-operatives

The Total Value Framework

Co-operatives and mutuals harness resources from key stakeholders and transform these resources in to long-term value for those stakeholders. The key stakeholders being members (consumers/employees), the business itself, suppliers and the wider community.

The resources mobilised (the inputs) and the value created (outcomes) can be categorised as financial (commercial), manufactured (operational assets), intellectual, human, social and

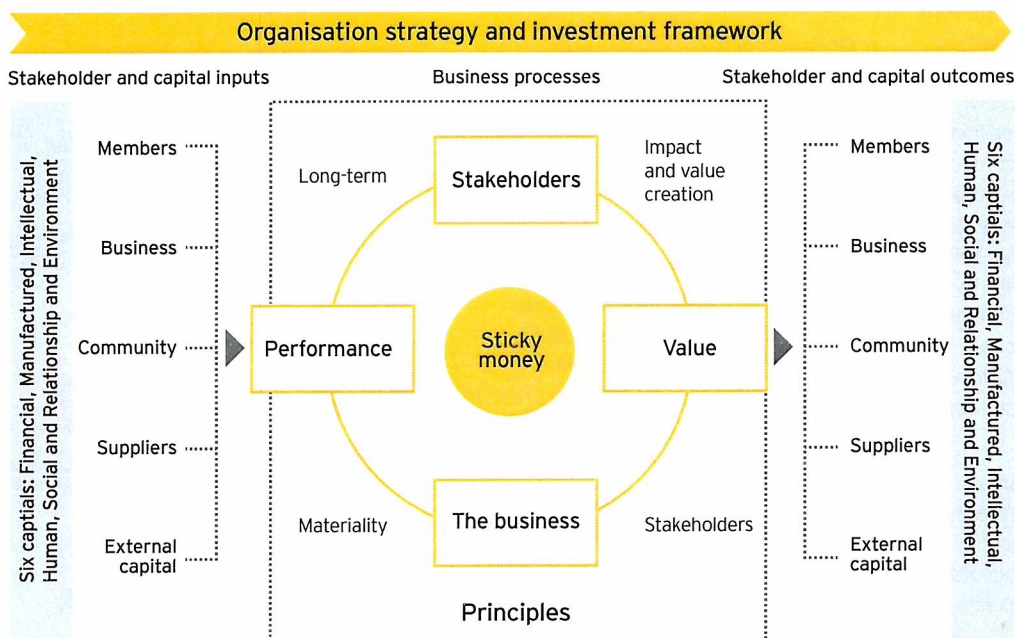
relationship, and natural. The co-operative or mutual structure recycles the value created across the key stakeholders to create total value – a process which we call *Sticky Money*. This transformational process is captured in the *Total Value Framework* (Figure 1).

The drivers of total value

The drivers for the creation of commercial value and broader economic, social and environmental value could be seen as inherent characteristics of co-operatives and mutuals.

Whilst some of these inherent characteristics are observed in other organising models, such as investor-owned businesses and not-for-profit community service organisations, the combination of these inherent characteristics make co-operatives and mutuals distinctive. For example, in both commercial and public service markets, the combination of high levels of member engagement and reinvestment of surpluses / profits for member benefit may offer comparative advantage over other organisational models.

Figure 1: The Total Value Framework⁵



⁵ The Total Value Framework is adapted from the Integrated Reporting Framework. International Council of Integrated Reporting (2013). The International Reporting Framework. Accessed at <http://www.theirc.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>

⁶ The International Co-operative Alliance. The values and principles of co-operatives. Accessed at <http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>

Identifying and understanding the total value created

Before we can measure the total value created, it is important that co-operatives and mutuals are able to transparently describe how they create value for their stakeholders by understanding the following:

1. What are the capitals required to create value?
2. What are the businesses processes which create value?
3. What type of value do they create?
4. Who receives this value?

Value creation trees are a structured process to assist in answering these questions and begin to describe *how* they create value. The value creation trees help to objectively describe the interaction between different types of capital inputs, business processes, and capital outputs and outcomes for different stakeholder groups. They are read from the bottom to the top, from inputs to business process to outputs. Figure 2 describes a generic value creation tree for a co-operative or mutual. Whilst the generic tree includes all of the inherent characteristics, capitals and business processes which create value, in reality only the material or most important contributors of value will be included in the trees. This helps to focus the organisation on the most important aspects which create value to the business and its stakeholders and what will eventually be measured and reported as total value.

For example, the re-investment of surpluses (financial capital) assists a co-operative or mutual to invest in creating new or improved products and services to meet the needs (existing and emerging) of members. Creating new products and services will drive an increase in sales, member satisfaction and market share leading to increased revenue and member loyalty.

Benefits

There are three key benefits for co-operatives and mutuals in using the Total Value Framework and value creation trees:

1. Improved understanding of how they create value, the different types of value created for different groups of stakeholders.
2. Gain insights into how they can improve the efficiency and effectiveness of their business in order to increase a particular type of value for particular groups of stakeholders.
3. Demonstrate their comparative advantage and differentiate from competitors, particularly investor owned businesses, by demonstrating the additional value they create, beyond straight financial value. In many cases, this may include the recycling of money within the local economy – which we call Sticky Money.

Measuring and reporting the total value created

Once you understand how your organisations creates value, you can begin to measure and report this value. Figure 3 illustrates how a co-operative or mutual communicates the total value created by their business by type of capital and stakeholder.

We anticipate existing data and management systems will capture some of the total value created by co-operatives and mutuals. However, it will be necessary for some to invest in developing new systems to help measure the additional value created.

We propose that during the implementation phase co-operatives and mutuals use the *Total Value Framework* and value creation trees to recognise and demonstrate value and, where possible, to quantify it.

Identifying and understanding the total value co-operatives and mutuals create for members, community and the broader economy is essential not only for their own future success but also lifting the co-operatives and mutuals sector out from the shadows to enable them to be seen as genuine alternative sustainable businesses.

About this research

This research has been prepared by EY for the Business Council of Co-operatives and Mutuals (BCCM) 2014.

The authors would like to thank the BCCM, The Barossa Co-op and Teachers Mutual Bank for their sponsorship, support and guidance during the development of this research.

The Co-op is a leading Australian retail co-operative with revenue of more than \$65m and employing 350 people from the local community.

Teachers Mutual Bank, is the leading Australian bank servicing the education sector, and is one of Australia's largest mutuals with over 160,000 members and \$4.4 billion in assets. Teachers Mutual Bank is a purpose-driven bank; we believe our profits should be used for good.



Figure 2: Value creation trees – A generic description of how a co-operative or mutual creates value for its stakeholders

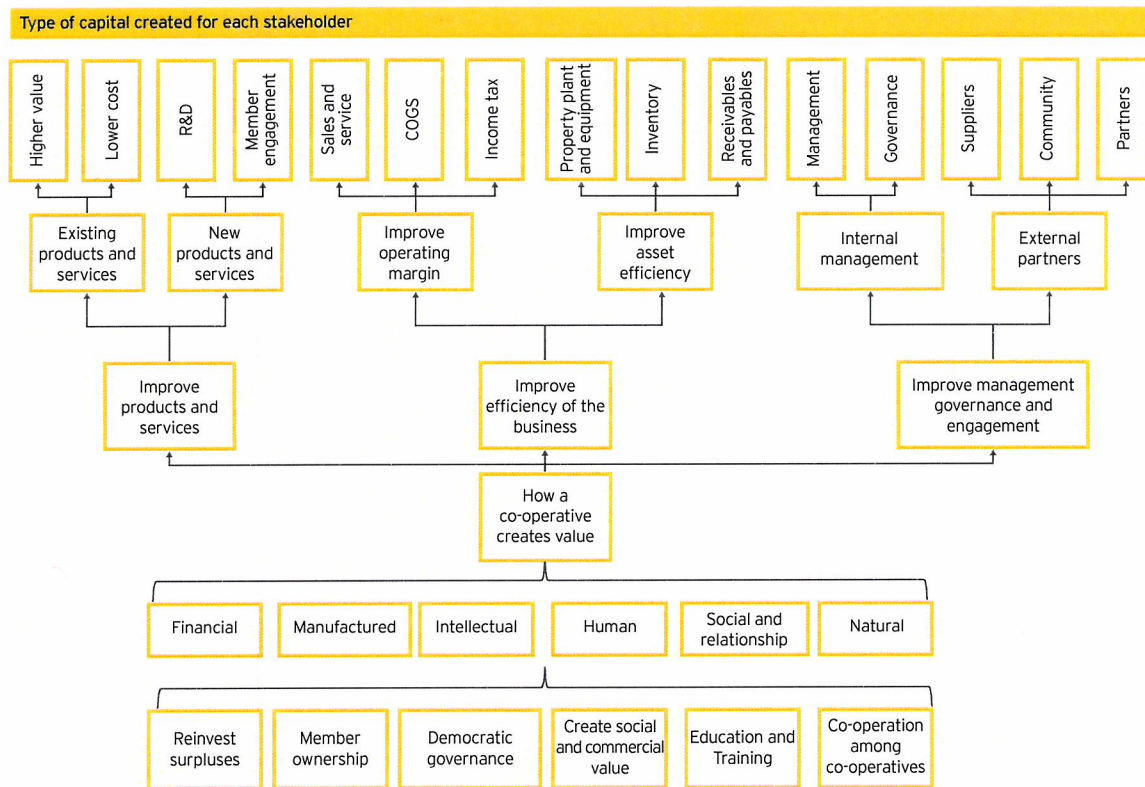
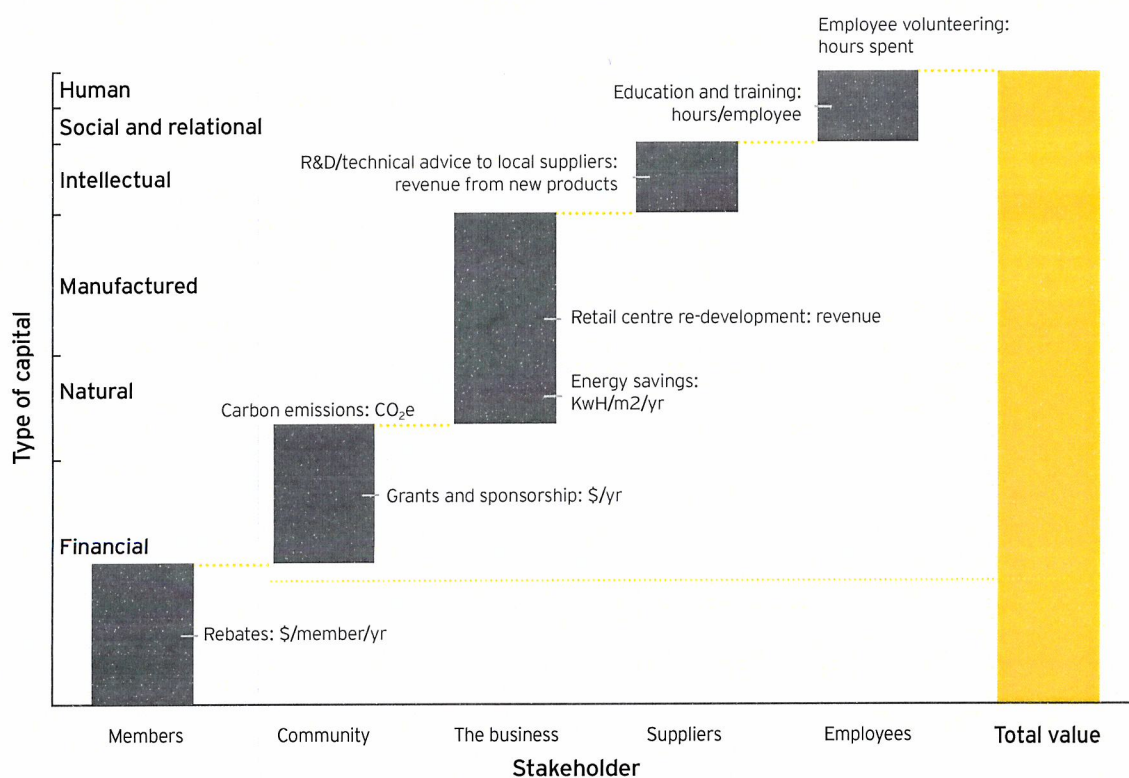


Figure 3: A generic example of how a co-operative or mutual may report the total value they create



Case study: The Barossa Co-op

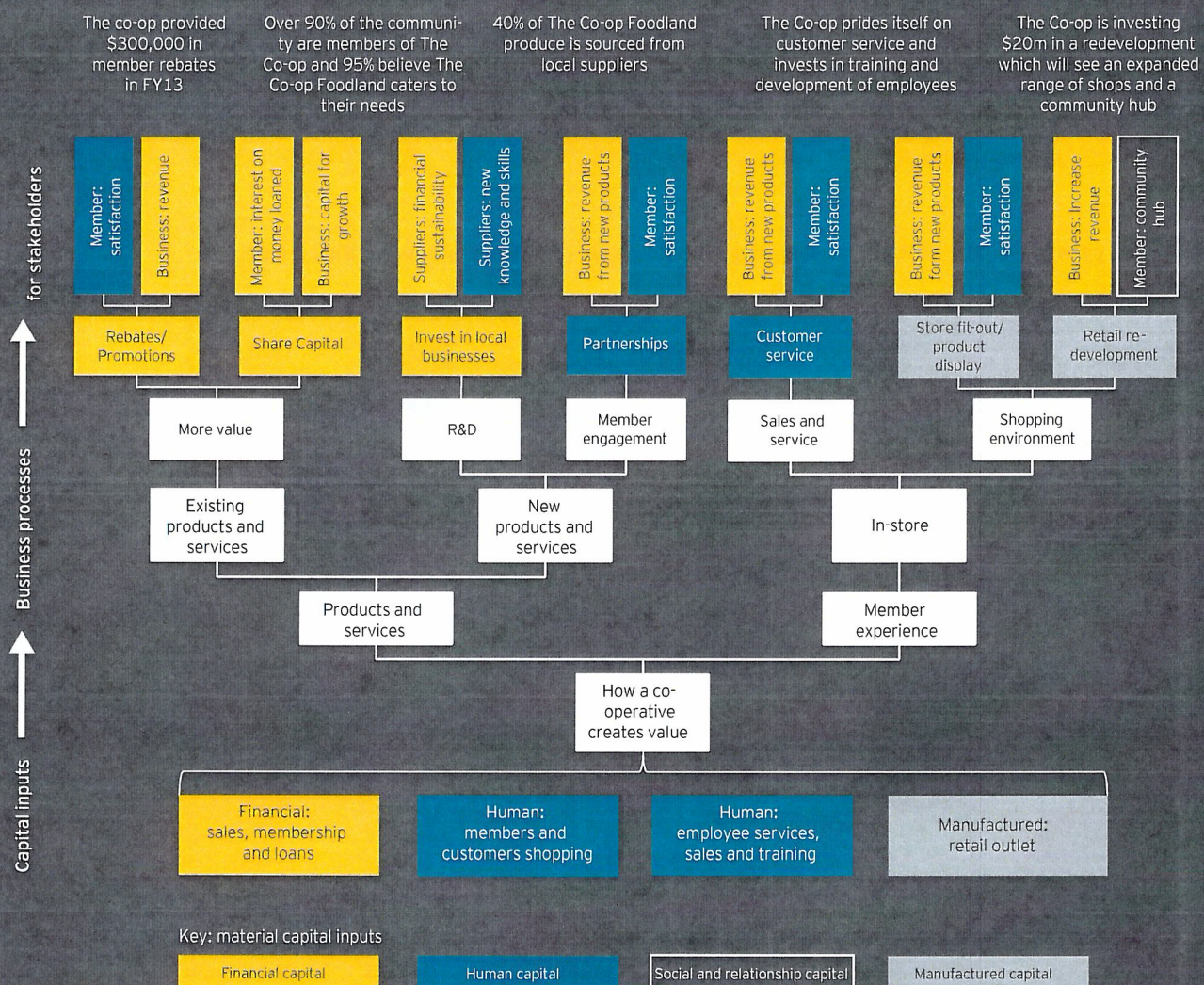
The Barossa Community Co-operative Store, 'The Co-op', is Australia's leading retail co-operative including Foodland. Formed in 1944, The Co-op is the largest and longest standing consumer co-operative in Australia.

Membership is open to any individual through the minimum purchase of a single share for \$2 dollars through to a maximum investment of \$50,000 dollars for 25,000 shares. The Co-op distributes approximately \$700,000 dollars to its members annually through interest on share capital, interest on accumulated rebates and rebates on qualifying purchases. In 2014, members also shared in savings worth over one million dollars through The Co-op's instant rebate saving scheme.

The Co-op seeks to maximise the benefits for its members – the people who shop with them, and provides a "local service" – based on quality and consistency of service rather than maximising profit. The Co-op regularly engages with its owner members and undertakes consumer consultation to ensure it is delivering on what the community needs. The Co-op is also a community asset and fulfils a social function, providing an informal meeting place for people in the Barossa.

The Co-op provides for additional value to its members, suppliers and the local community which is often not reported in the annual financial statements. Using the *Total Value Framework* and value creation trees, the additional value created for stakeholders can be described (Figure 4) and the contribution to the local economy quantified (Figure 5). For this analysis we have focused on The Co-op Foodland which represents 73 per cent of revenue for the group. The Co-op Foodland value creation tree demonstrates the material flows of value and how two key aspects of the business, products and services and the member experience, create financial, human and social and relationship capital for its members, suppliers and the business.

Figure 4: How The Co-op Foodland creates value for its members



The total value created by The Co-op Foodland

The Co-op Foodland creates substantial additional value for the local economy and comparative advantage over competitors. The contribution to the local community and the continued recycling of this money within the community by members, employees and suppliers helps to create a resilient and thriving local economy. This recycling of money, or *Sticky Money*, is a result of The Co-op Foodland using its revenue to source produce from local suppliers, employing local people and providing rebates to members. Suppliers, employees and members then re-spend part of their earnings, salaries and rebates with local shops and service providers.

For every \$1 dollar spent in The Co-op Foodland an additional 76c of value is created for the local economy.

Growing local entrepreneurs: An example of the Co-op Foodland supports local suppliers

The Co-op Foodland was instrumental in the success of Barossa Pizzas, a proud South Australian family owned and operated business. From humble beginnings supplying pizzas to local hotels and clubs, we today employ 26 staff and sell our pizzas at 150 stores in South Australia and Queensland.

Our evolution began with The Co-op Foodland approaching us to sell our pizzas in their store. They offered us tremendous support and advice during set up and were always friendly and helpful. With their assistance we have been able to grow tremendously providing jobs in the local community and receive recognition for our success as a Finalist in the Brand South Australia Regional Awards.

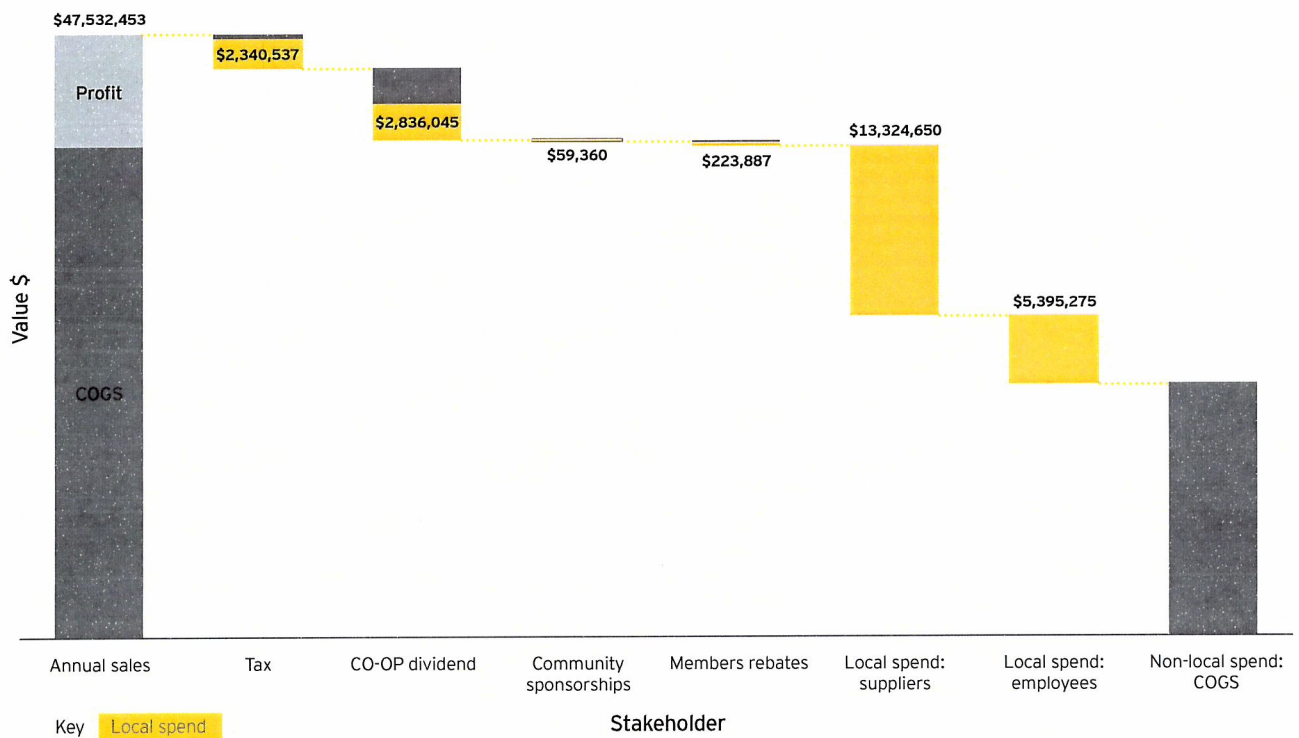
We hope to continue this growth through a new line of frozen pizzas which will assist us to broaden our distribution nationally.

Our growth and success is thanks to The Co-op Foodland and PIRSA, Food Innovation Hub Grants Program which provided a food innovation grant to assist our expansion.

Donna Noble, Managing Director, Barossa Pizzas.

Sticky Money: For every \$1 spent in The Co-op Foodland an additional 76c of value is created for the local economy including members, employees, suppliers and the community.

Figure 5: The Co-op Foodland – Total Value Framework Multiplier⁷



⁷ The Total Value Framework Local Multiplier is derived from the LM3 Framework for Cooperatives UK. Co-operatives UK (2013). Sticky Money: Evaluating the local impact of the co-operative pound. Accessed at http://www.uk.coop/sites/storage/public/downloads/lm3_new_insight_10.pdf

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Your business may face new regulatory requirements and rising stakeholder concerns. There may be opportunities for cost reduction and revenue generation. Embedding a sustainable approach into core business activities could be a complex transformation to create long-term shareholder value.

The industry and countries in which you operate as well as your extended business relationships introduce specific challenges, responsibilities and opportunities.

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